

**ORGANIZATIONAL EXAMINATION**  
**OF**  
**THE CINCINNATI SPECIALTY**  
**UNDERWRITERS INSURANCE COMPANY**  
**AS OF**  
**October 9, 2007**

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached ORGANIZATIONAL REPORT ON EXAMINATION, made as of OCTOBER 9, 2007 of the

**THE CINCINNATI SPECIALTY UNDERWRITERS  
INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

DATE: 2 NOVEMBER 2007



*In Witness Whereof,* I HAVE HEREUNTO SET MY HAND  
AND AFFIXED THE OFFICIAL SEAL OF THIS  
DEPARTMENT AT THE CITY OF DOVER, THIS  
2ND DAY OF NOVEMBER 2007.

*Matthew Denn*

*Insurance Commissioner*

**REPORT ON ORGANIZATIONAL EXAMINATION**

OF THE

**THE CINCINNATI SPECIALTY UNDERWRITERS  
INSURANCE COMPANY**

AS OF

**OCTOBER 9, 2007**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", is positioned above a horizontal line.

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MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 2<sup>ND</sup> day of NOVEMBER, 2007

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## **SALUTATION**

October 15, 2007

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 07.054 dated October 11, 2007, an Organizational Examination has been conducted of

### **THE CINCINNATI SPECIALTY UNDERWRITERS INSURANCE COMPANY**

hereinafter referred to as “the Company”, or CSUIC incorporated under the laws of the State of Delaware as a stock company with its registered office in the State of Delaware at 1807 North Market Street, Wilmington, Delaware 19802. The Company’s main administrative office is located at 6200 S. Gilmore Road, Fairfield, Ohio 45014. This examination was conducted at the Company’s administrative office in Fairfield, Ohio.

The report of such examination is respectfully submitted herewith.

## **SCOPE OF EXAMINATION**

This organizational examination was conducted in conjunction with the Company's application for a domestic Certificate of Authority in the State of Delaware. I have reviewed the Company's corporate records, records applicable to and attendant with its application, as well as financial data as of October 9, 2007.

## **HISTORY**

The Company was incorporated on August 13, 2007, under the laws of the State of Delaware and authorized to issue ten thousand (10,000) shares of common stock with a par value of \$1,500.00 per share. As of October 9, 2007, three thousand five hundred (3,500) shares of the Company were issued and outstanding to the Cincinnati Insurance Company, (CIN) an Ohio domestic insurer, on October 1, 2007. This provided the Company with common capital stock of \$5,250,000. An additional \$194,750,000 was contributed to the Company in the form of cash and intercompany receivables.

## **MANAGEMENT AND CONTROL**

### **Shareholders**

The annual meeting of the stockholders of the Company shall be held at the principal office of the Company, or at such other place and at such hour as shall be designated in the notice thereof, on the first Saturday of April in each calendar year provided that the Board may fix an alternate annual meeting date and time for any particular year

## **Board of Directors**

The Company's By-Laws, adopted August 20, 2007, state that the business and property of the Company shall be managed by a Board of Directors. The number of Directors shall be not less than four or more than eighteen. Directors may or may not be shareholders and shall be elected annually. Regular meetings of the Board are to be held quarterly at the office of the Company in the State of Delaware or at such other place as the Chairman of the Board or President in his absence may direct. Directors of the Company are as follows:

| <u>Name</u>         | <u>Affiliation</u>   |
|---------------------|--|
| William F. Bahl     | President, Bahl and Gaynor, Inc  |
| James E. Benoski    | President, Chief Operating Officer<br>Cincinnati Financial Corporation   |
| Gregory T. Bier     | Retired Deloitte & Touche  |
| Donald J. Doyle     | Senior Vice President, The Cincinnati<br>Insurance Companies   |
| Thomas A. Joseph    | Director, The Cincinnati Insurance<br>Companies  |
| W. Rodney McMullen  | Vice Chairman and Director, The Kroger<br>Company  |
| Larry R. Plum       | Director, The Cincinnati Insurance<br>Company  |
| Jacob F Scherer     | Director, Cincinnati Insurance Company   |
| John J. Schiff, Jr. | Director, Cincinnati Financial<br>Corporation  |
| Thomas R. Schiff    | Insurance Agent  |
| Kenneth W. Stecher  | Chief Financial Officer, executive Vice<br>President, Secretary and Treasurer,<br>Cincinnati Financial Corporation |
| Timothy L. Timmel   | Director, Cincinnati Insurance Company   |
| Larry R. Webb       | President and Treasurer, Webb Insurance<br>Agency, Inc.  |
| E Anthony Woods     | Chairman and CEO, Support Source   |

## **Committees of the Board of Directors**

The Directors may by resolution regularly adopted, delegate not less than three or more than ten directors to constitute an executive committee. The executive committee shall possess all the powers of the full Board of Directors. The board of Directors may designate one or more committees in addition to the executive committee. Committees appointed at the August 20, 2007 meeting of the Board of Directors are as follows:

### **Executive Committee**

James E. Benoski  
John J. Schiff, Jr  
Larry R. Webb

### **Investment Committee**

William F. Bahl  
James E. Benoski  
Gregory T. Bier  
W. Rodney McMullen

John J. Schiff, Jr.  
Thomas R. Schiff  
E. Anthony Woods

## **Officers**

Officers of the Company shall be a President, Secretary, Treasurer, and if the Board so determines a Chairman of the Board, A Vice Chairman of the Board, a Chief Executive Officer and one or more Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. Officers are elected by the Directors each year and shall hold office until his successor is chosen and qualified. Officers elected at the Board of Directors meeting held August 20, 2007 are as follows;

### **Name**

James E. Benoski  
Kenneth W. Stecher

Donald J. Doyle, Jr.  
Stephen M. Spray

### **Office(s)**

Chief Executive Officer and President  
Chief Financial Officer, Executive  
Vice President, Secretary and Treasurer  
Senior Vice President  
Assistant Secretary



The NAIC Biographical Affidavits of the Company's Officers and Directors were reviewed during this examination. In addition, both the Code of Conduct and Statement of Principles of the Company's ultimate parent Cincinnati Financial Corporation were reviewed and accepted without exception.

### **HOLDING COMPANY SYSTEM**

The Company is a member of an Insurance Holding Company System. The ultimate controlling entity is the Cincinnati Financial Corporation (CFC). CFC is a publicly traded company. No one person owns more than 10% of the outstanding shares of CFC. The organizational chart of CFC is as follows:

Cincinnati Financial Corporation

    CinFin Capital Management Company

    CFC Investment Company

    The Cincinnati Insurance Company

        The Cincinnati Casualty Company

        The Cincinnati Indemnity Company

        The Cincinnati Life Insurance Company

        The Cincinnati Specialty Underwriters Insurance Company

The Company's operations will be pursuant to the following Intercompany agreements:

#### **Intercompany Benefits and Expense Allocation Agreement**

The agreement sets forth the cost allocation methods and procedures allowing the CFC to provide certain services to the certain subsidiaries in order to minimize their expenses of administration.

#### **Intercompany Cost Sharing and Expense Agreement:**

The agreement sets forth the cost allocation methods and procedures allowing CFC, The Cincinnati Insurance Company and the Cincinnati Life Insurance Company to provide certain services to the other companies in order to minimize their expense administration

Tax Sharing Agreement:

The agreement allows CFC to file a consolidated Federal Income Tax Return for all life and non-life insurance subsidiaries of CFC.

In addition the Company will have an intercompany reinsurance agreement and a broker agreement with an affiliate.

**FIDELITY BOND COVERAGES**

The Company is included as a named participant in the Fidelity Bond of Lightyear along with other subsidiaries of the holding company with a limit of \$5 million per loss, \$10 million policy aggregate and \$50,000 retention. Additionally, CFC and its subsidiaries maintain coverage for Property, Inland Marine General Liability, Business Auto, Workers Compensation, Ohio Excess Workers Compensation, Umbrella, Directors & Officer Liability and Errors & Omissions Liability.

**PLAN OF OPERATION**

The Company is sponsored by the Cincinnati Insurance Company, (CIN) a subsidiary of Cincinnati Financial Corporation (CFC) a publicly traded corporation. The Company will operate as a surplus lines carrier authorized in all states and the District of Columbia. It is intended that the Company will provide an outlet for the current producers of CIN and other admitted companies in the group for products that are otherwise acceptable business but do not meet the underwriting guidelines, pricing or coverage options offered by CIN and other admitted

insurers in the group. This business is currently being written in unaffiliated surplus lines insurers. The Company will be the only surplus lines carrier in CFC.

It is anticipated that the Company business will be a mix of approximately 80% casualty and 20% property (including inland marine).

### **REINSURANCE**

As represented by management, it is intended that the Company will cede 40% of its premium and losses to CIN through an affiliated reinsurance agreement limited to risk with a \$4 million limit per loss occurrence. Facultative coverage will be purchased on all limits in excess of \$4 million.

In addition the Company is expected to become a party to and be included in the property and catastrophe reinsurance program currently in place for The Cincinnati Insurance Companies.

Catastrophe layers are as follows:

1st- 95% of \$25,000,000 in excess of \$45,000,000

2nd-95% of \$35,000,000 in excess of \$70,000,000

3rd- 95% of \$95,000,000 in excess of \$105,000,000

4th- 95% of \$100,000,000 in excess of \$200,000,000

5th- 95% of \$100,000,000 in excess of \$300,000,000

6th- 95% of \$100,000,000 in excess of \$400,000,000

### **CAPITAL AND SURPLUS REQUIREMENTS**

18 Del. C. § 511(a) requires the following minimum capital and surplus amounts for a stock multiple line insurance company:

|                                  |           |
|----------------------------------|-----------|
| Common Capital Stock             | \$500,000 |
| Surplus as Regards Policyholders | 250,000   |

|                           |           |
|---------------------------|-----------|
| Total Capital and Surplus | \$750,000 |
|---------------------------|-----------|

As shown in the Financial Data section of this report, as of October 9, 2007, the Company possessed Capital of \$5,250,000 and Gross Paid In and Contributed Surplus of \$194,750,000. This is comprised of cash deposits of \$20,000,000 and a Receivable from parent, subsidiaries and affiliates of \$180,000,000.

### **FINANCIAL DATA**

The financial position of the Company as of the examination date, as determined by this organizational examination was as follows:

#### **Assets**

|  |                      |
|--|----------------------|
| Cash   | \$20,000,000         |
| Receivable from parent subsidiaries and affiliates | <u>180,000,000</u>   |
| Total Admitted Assets                              | <u>\$200,000,000</u> |

#### **Liabilities, Surplus and Other Funds**

|  |                      |
|--|----------------------|
| Total Liabilities                                      | <u>\$0</u>           |
| Common Capital Stock                                   | \$5,250,000          |
| Gross Paid In and Contributed Surplus                  | 194,750,000          |
| Unassigned Funds                                       | <u>0</u>             |
| Surplus as Regards Policyholders                       | <u>\$200,000,000</u> |
| Total Liabilities and Surplus as Regards Policyholders | <u>\$200,000,000</u> |

### **NOTES TO FINANCIAL STATEMENTS**

There are neither filed annual statements nor audited financial statements at this time. The balance sheet was prepared from journal entries and consisted of \$200,000,000 in assets. Of

this amount \$20,000,000 was in cash and \$180,000,000 was in receivable from affiliates. There were no liabilities or organizational expenses on the balance sheet.

The Company has entered into a custodial agreement with a national bank. We compared the custodial agreement provisions with those guidelines in the Examiners Handbook. The agreement did not contain all the provisions in the examiners handbook.

**It is recommended that the Custodial Agreement be amended to include the provisions contained in the Examiner Handbook.**

Cash consisted of two balances. The Company has \$17,390,000 deposited in the Fifth Third Bank. The second balance was an escrow account for \$2,610,000 in the Wilmington Trust. The balances were pursuant to Delaware statutes and were comprised of the following;

|                              |                    |
|------------------------------|--------------------|
| General Deposit              | \$2,500,000        |
| Special Surety Deposit       | 10,000             |
| Workers Compensation Deposit | <u>100,000</u>     |
| Total                        | <u>\$2,610,000</u> |

### **CONCLUSION**

Based on the organizational examination conducted as of October 9, 2007, the financial condition of the CSUIC was found to be as follows:

|  |                      |
|--|----------------------|
| Assets                                 | <u>\$200,000,000</u> |
| Liabilities                            | <u>\$0</u>           |
| Capital Stock                          | \$5,250,000          |
| Paid In and Contributed Surplus        | <u>194,250,000</u>   |
| Total Surplus as Regards Policyholders | <u>\$200,000,000</u> |

Upon completion of the organizational examination, the Company has complied with the capitalization requirements for the State of Delaware. The examination was conducted by the undersigned.

Respectfully Submitted,



Dennis J. McGovern, CFE  
Examiner-In-Charge  
Department of Insurance  
State of Delaware

### **SUBSEQUENT EVENTS**

The Company did file an amended Custodial Agreement, effective as of October 22, 2007. The purpose of this amendment was to ensure that the Custodial Agreement conforms to the guidelines in the Examiner's Handbook.